

CAPITAL PROJECTS AND BOND OVERSIGHT COMMITTEE

Minutes

April 20, 2010

The Capital Projects and Bond Oversight Committee met on Tuesday, April 20, 2010, at 1:00 p.m. in room 169 of the Capitol Annex. Senator Bob Leeper, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Bob Leeper, Co-Chair; Senators Tom Buford, Julian M. Carroll, and Elizabeth Tori; Representative Steven Rudy.

Guests: John Hicks, Governor's Office of Policy and Management; Sam Ruth, Facilities and Support Services; Charles Bush, Division of Real Properties; Sandy Williams, Kentucky Infrastructure Authority; and Tom Howard and Brett Antle, Office of Financial Management.

LRC Staff: Don Mullis, Kristi Culpepper, and Samantha Gange.

Senator Carroll made a motion to approve the minutes of the March 22, 2010 meeting. The motion was seconded by Representative Rudy and approved by voice vote.

Senator Leeper indicated that because some members needed to leave early, action items would be taken first. He called on John Hicks, Deputy Director, Governor's Office for Policy and Management, to come to the table to present one project. Mr. Hicks said the Finance and Administration Cabinet is reporting its approval of an unbudgeted project for the Department for Military Affairs Wendell H. Ford Regional Training Center. The project cost is \$610,000 and is funded by the 2010 Army Operations and Maintenance grant program and is 100 percent federally funded. The project consists of the construction of a 25 meter rifle range that will be used to train Kentucky National Guard troops.

Representative Rudy made a motion to approve the unbudgeted project for the Department for Military Affairs. The motion was seconded by Senator Buford and passed unanimously by roll call vote.

Next Senator Leeper called on Brett Antle, Deputy Director, Office of Financial Management, to report school bond issues. Mr. Antle reported 13 new bond issues with the School Facilities Construction Commission (SFCC) debt service participation for Allen County, Barren County, Carter County, Crittenden County, Ft. Thomas

Independent in Campbell County, Greenup County, Henderson County, Johnson County, Mercer County, Monroe County, Muhlenberg County, Owsley County, and Warren County.

Senator Buford made a motion to approve the 13 SFCC bond issues. The motion was seconded by Representative Rudy and passed unanimously by roll call vote.

Senator Leeper called on Don Mullis, Committee Staff Administrator, to discuss correspondence and information items. Mr. Mullis said members' folders contained several correspondence items: the quarterly status reports from the Finance and Administration Cabinet, the universities that manage their own construction projects, and the Administrative Office of the Courts (AOC); correspondence from the Finance and Administration Cabinet regarding notice of advertisement for leased space; and a report of a plan by the Finance and Administration Cabinet to use the Construction Management-at-Risk project delivery method for the Lexington Community College Classroom/Lab Building (Classroom/Student Services Building for Bluegrass Community and Technical College System) on the Newtown Pike Campus in Lexington, Kentucky.

Next Mr. Mullis noted that members' folders contained several information items: the Semi-Annual Report of the Kentucky Asset/Liability Commission, proposed legislation related to the jurisdiction of the Capital Projects and Bond Oversight Committee; and the staff and bond market updates.

Mr. Mullis then reported that Western Kentucky University has used available federal funds totaling \$2,355,128 to acquire an item of research equipment. Purchases of unbudgeted equipment must be reported to the Committee; but no action is required.

Next Senator Leeper called on Mr. Hicks and Sam Ruth, Commissioner, Facilities and Support Services, Finance and Administration Cabinet, to report allocations from the Major Maintenance and Renovation Pool. Mr. Hicks said the Finance and Administration Cabinet is reporting its approval of three new capital projects for the Tourism, Arts, and Heritage Cabinet, Kentucky Center for the Arts: 1) Dimming and Lighting System Replacement project (\$1,218,400). This project will replace the dimming systems in all three theaters, along with the theatrical lighting fixtures; 2) Rigging system replacement project (\$4,250,000). This project involves replacing the current hydraulic rigging system with an electric motor driven rigging system; and 3) Lobby Renovation project (\$1,300,000). This project consists of replacing the wall covering the main lobby's three levels and the finishes in the building elevators. The total estimated cost of the projects is \$6,768,400 and will be funded from the Major Maintenance Renovation Pool funded by the 2008-10 budget. No Committee action was required.

Senator Leeper recognized Charles Bush, Director, Division of Real Properties, Finance and Administration Cabinet, to report two items related to leases. Mr. Bush reported two lease modifications. The first lease modification was for the Department of Public Advocacy (Department) in Franklin County (PR-3764). The Department requested to make improvements to their facility, which included the installation of an entry door and sidelights where the corridor occupied by the agency meets the main public hallway to secure access to the office area. The cost of the modifications, \$1,922, will be amortized over the remaining lease term (through June 30, 2011).

Mr. Bush said the second lease modification was for the Department of Agriculture (Department) in Franklin County (PR-4861). The Department requested improvements to the facility housing the Office of the Commissioner and support staff. The improvements will consist of renovations to create an executive office, conference room, and support staff areas. The move was necessitated by water damage to the previous office space. The cost of the modifications, \$30,967, will be amortized over the remaining lease term (through June 30, 2011). The Department's monthly rental cost will increase by \$1,146.93. No Committee Action was required.

Senator Leeper asked if there was existing leased-space that is not currently being occupied. Mr. Bush said that existing leased-space is currently being studied.

Senator Leeper asked Sandy Williams, Financial Analyst, Kentucky Infrastructure Authority, to present several grants. Ms. Williams indicated that various coal and tobacco development grants authorized by the General Assembly were included in members' folders. Each project was authorized in a budget bill and no further Committee action was needed.

Next Senator Leeper called on Tom Howard, Executive Director, and Mr. Antle, Office of Financial Management, to present several follow-up reports for previously approved bond issues. Mr. Antle said the first follow-up report was for the Kentucky Asset/Liability Commission Project Notes 2010 Federal Highway Trust Fund First Series A (GARVEEs). This bond issue will provide permanent financing for part of the \$231 million authorized by the 2008 General Assembly in HB 406 for the Louisville-Southern Indiana Ohio River Bridges project. GARVEE bonds are repaid with future federal highway appropriations. The bond issue was approved by the Committee at the January 2010 meeting.

The second follow-up report was for the Kentucky Housing Corporation (KHC) Housing Revenue Bonds 2010 Series A (Non-AMT) and 2009 Series C-1 (Non-AMT). Proceeds from this bond issue will be used to make a deposit to the 2010 Series A/2009 Subseries C-1 Mortgage Purchase Account, thereby making funds available for single-family mortgage loans. The bond issue was approved by the Committee at the October 2009 meeting.

The third follow-up report was for the KHC Conduit Multifamily Housing Revenue Bonds (GNMA Collateralized Mortgage Loan – Country Place Apartments Project) Series 2010. Proceeds from this conduit bond issue will be used to finance the acquisition, rehabilitation, and equipping of the 150-unit Country Place Apartments in Hebron, Kentucky. All of the units included in the project will be reserved for families earning 60 percent or less of the area median income. The bond issue was approved by the Committee in June 2009, then resubmitted in September 2009 with an increased project amount. The Committee voted to defer action on the project until October 2009 to give KHC the opportunity to respond to Committee members' questions about the transaction participants and various policy issues. The issue was approved in October 2009.

Mr. Antle said the fourth follow-up report was for Kentucky Economic Development Finance Authority (KEDFA) Hospital Revenue Bonds, Series 2010A (Owensboro Medical Health System, Inc.). Proceeds from this bond issue will: 1) provide funding for the construction of a replacement hospital in Owensboro, Kentucky; and 2) refund Kentucky Health System Variable Rate Revenue Bonds (Owensboro Mercy Health System, Inc.) Auction Rate Securities, 2001 Series A, 2001 Series B, and 2001 Series C – in a principal amount of \$168,700,000, which were issued on a conduit basis by the City of Owensboro. The bond issue was approved by the Committee at the October 2009 meeting.

The fifth follow-up report was for KEDFA Industrial Building Revenue Note, Series 2010 (Goodwill Industries of Kentucky, Inc. project). Proceeds from this conduit bond issue will (1) finance the relocation and expansion of Goodwill's corporate offices, expansion of a district office and existing donation centers, and establishing new donation centers; and (2) refund an outstanding 2003 adjustable-rate conduit bond issue. The bonds will be secured by a mortgage on all of Goodwill's real property and will be directly purchased by PNC Bank. The bond issue was approved by the Committee at the March 2010 meeting.

The sixth follow-up report was for KEDFA Medical Center Revenue Bonds, Series 2010A (Ashland Hospital Corporation d/b/a King's Daughters Medical Center project). Proceeds from this bond issue will be used to make various improvements to the medical center in Ashland, including adding two floors to the Heart and Vascular Center, renovating and expanding operating room, inpatient, and outpatient facilities. The bond issue was approved by the Committee at the February 2010 meeting. No Committee action is required on follow-up reports for previously approved bond issues.

Senator Carroll asked about the variation in interest rates across different bond issues. Mr. Howard indicated that there is a wide gap between credit ratings. Also, there

is typically a penalty on health care related vs. non-health care related bond issues. He said the market does price for credit risk in the current environment.

Senator Carroll asked why health-care related bond issues would receive a penalty. Mr. Howard responded that many have thin operating margins and high overhead costs. He indicated that there is a wide-variety of reasons regarding strength vs. weaknesses when it comes to credit. Mr. Howard also mentioned that health-care related bond issues are dependent on government reimbursements.

Senator Carroll asked why some of the bond issues are competitively bid and some are negotiated. Mr. Howard indicated that typically conduit transactions are done on a negotiated basis where the individual entity is able to select the underwriter, whereas local government and state government transactions require a competitive bid. Some borrowers need to work with the underwriter to receive the best deal on the bonds, for example if the borrower involves unique credit risks.

Senator Leeper asked Mr. Mullis to report the new local school bond issues. Mr. Mullis said there were nine new school district bond issues with 100 percent local debt support for Bardstown Independent in Nelson County, Bullitt County, Kentucky Interlocal School Transportation Association, Laurel County, Montgomery County, Oldham County, Pulaski County, Shelby County, and Warren County. All disclosure information has been filed. No Committee action was needed.

With There being no further business, Representative Rudy made a motion to adjourn the meeting. The motion was seconded and the meeting adjourned at 1:20 p.m.